



Good Health at Appen

Company/ASX Code	Appen Limited /APX
AGM date	Friday 29th May 2020
Time and location	On line 10am NSW
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Mary Curran assisted by Estelle Renard
Pre AGM Meeting	Telecon(s) with NED Bill Pulver

The individual(s) (or their associates) involved in the preparation of this voting intention **has** a shareholding in this company.

ASA will be attending the virtual meeting voting our proxies and asking questions.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

It has been a healthy financial year at Appen despite the Corona Virus with a total shareholder return of approximately 75% despite the volatility of the share price following the close. (share price in mid Feb 2020 fell from approx. \$27 to \$15 mid-March 2020 in line with the overall market thereafter bounded back with other IT stocks). The company states that they believe it was purely COVID19 related. The losses for Figure 8, acquired this FY was less than expected and gives Appen further diversification as currently 88% revenue comes from five customers. The company adopts a managed approach to customer acquisition and is investing in sales and market to increase market share and to reduce the percentage of revenue derived from the largest customers. In brief, the company has had a stellar rise since listing in January 2015 at 50cents. (share price \$28.80 at time of writing).

With a global outlook, Appen provides data annotation services to the very large US tech giants as well as targeting growth markets, including government, China and select verticals such as automotive and finance. Data annotation services involve providing data sets to train artificial intelligence and machine learning applications to help these applications understand and interpret speech, natural language, images and human judgement. It is part of the Australian WAAAX group (Wisetech, Altium, Appen, Afterpay and Xero). It leverages the growing use of artificial intelligence and the big tech giants are still willing to open their wallets for these projects despite harsh economic times. And because the Appen workers, known as the Appen “crowd” work flexible hours at home, it’s business as usual. Due to majority of revenue generated overseas,

dividends are most likely to be partially or unfranked. However, on the flip side, the low Australian dollar provides a currency tailwind.

The financials in brief, revenue grew to \$536.0 million, an increase of 47%. Underlying EBITDA was \$101.0 million, up 42%, Statutory EBITDA of \$87.9 million up 29% (reflects the costs relating to Figure 8). Underlying NPAT was \$64.7 million up 32%.

The acquisition of Figure 8 and the capital raising in March 2019 while noted at the AGM last year form part of this year's figures and had a substantial financial impact as the business was loss making when acquired. Figure 8 is a good adjunct to the business as it spreads the customer base and is a machine learning software platform which uses automated tools to transform unlabelled text, image, audio and video data into high-quality AI training data.

During year the retail shareholder base has grown from approximately 8,000 to **approx. 18,000** shareholders hence ASA has reiterated the need for fairness if any further capital raising were on the horizon. For example, the scale back on the Figure 8 capital raise was 70% approximately for small shareholders. None are planned currently. The company is debt free as of 31 December 2019.

New recruits include J Kondo as senior Vice-President, Sales and Marketing, who is US based. It was considered premature to include Wilson Pang, CTO, as a KMP as the company is transforming from a services company to a tech company.

Appen reinstated its guidance to the ASX on 15 April 2020 of full year underlying EBITDA is expected to be in the range of \$125-\$130 million.

Summary

(As at FYE)	2019	2018	2017
NPAT (\$m)	\$41,611	\$41,728m	\$14,282
UPAT (\$m)	\$64,710	\$49,028m	\$19,749
Share price (\$)	\$22.46	\$12.83	\$8.45
Dividend (cents)	.09	.07	.06
TSR (%)	75%	53%	198%
EPS (cents)	34.60	39.25	14.55
CEO total remuneration, actual (\$m)	\$3,884,482	\$2,309,000	NA

For 2019, the CEO's total actual remuneration was **42 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2018 data from the Australian Bureau of Statistics).

Item 2	Adoption of the Remuneration Report
ASA Vote	For

Summary of ASA Position

As would be expected the KMP remuneration, in brief, is divided into three parts, the fixed annual remuneration (FAR), the 'at risk' pay which is short term incentive (STI), cash and long-term incentive (LTI), three years, shares. It is important to note there are differences in the pay mechanisms for the Australia versus US domiciled employees to reflect the local culture.

The STI payments are financially oriented with metrics being both revenue and underlying EBITDA and in 2019 resulted in the pay-out of 142% less than the maximum 150%. There is no pay-out for below 80% of target. In terms of dollar value to the executives, the total STI pay-out to Mark Brayan (CEO) was \$709,613. The previous year 2018 as a comparison was \$375,000

With regard to LTI, this is based on basic underlying earnings per share (BUEPS) over three years using BUEPS growth of 20%. We would prefer four – five years, however, we note with technology companies, three years is more acceptable given the nature of the business. The LTI is also used as a staff retention tool as performance rights only vest if the recipient is still employed.

The table on page 56 notes only that statutory pay as stated in the Annual Report, but on the previous page, the actual pay (the difference being due to the increase in the share price) is noted. We would prefer if this was in one clear table. The CEO pay FAR is \$479,233 plus STI \$709,613 and total actual remuneration is \$3,884,482. Note due to the increase in the share price, value of rights at vesting of \$542,204 increases to \$2,637,640 at exercise, which is fine as it aligns with shareholder experience.

With regard to board, non-executive fees, these are reasonable at approx. \$120,000 each with a total board fees of \$650,000. All directors, with the exception of the new director Vanessa Liu, have sufficient 'skin in the game'. This year the company has adopted a specific stated policy which we applaud.

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	.750	21.4%	.75	19.3%
STI - Cash	.750	21.4%	1.125	29.0%
STI - Equity	nil	nil	.0	0
LTI	2.0	57.2	2.0	57.1%
Total	3.5	100%	3.87	100%

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Item 3.1	Election of Ms Vanessa Liu
ASA Vote	For

Summary of ASA Position

Last year Appen stated they would be looking for a new executive directly, ideally female, based in the USA, and since publishing the Annual Report, Ms Vanessa Liu has come on board. Vanessa has an impressive background. She is currently Vice- President with SAP.iO which invests in and accelerates start-ups in enterprise technology. She holds an AB (Magna cum Laude) in behaviour neuroscience from Harvard University and a JB (Cum Laude) from Harvard Law School. Given the new stated shareholder policy, we expect Vanessa will be buying shares in due course and will take note for next year AGM. **Holds nil shares.**

Item 4	Re-Election of Mr Christopher Vonwiller
ASA Vote	For

Summary of ASA Position

Chairman, Chris Vonwiller and his wife Julie founded the company in their spare room in their Gordon home in 1996 and remain significant shareholders (approx. 10%). In this respect, he does not meet the ASA guideline as independent, however, given the company background, we are accepting of this for the short term and note his re-election. We also note that the board has now increased from six to seven people and hence he does not have a casting vote. Also, we are mindful of his long history and corporate memory for the sharing of information with new board members in a company that has grown so quickly. He has a long history in the telecommunications industry and held senior positions with Telstra Corporation Limited for 20 years. He holds degrees with honours in science and engineering from the University of Sydney and has an MBA from Macquarie University. **Holds 11,060,286 shares.**

Item 5	Approval of grant of performance rights to CEO/Managing Director, Mr Mark Brayan
ASA Vote	For

Summary of ASA Position

The maximum number of rights that may be granted to Mr. Brayan at this meeting is 78,125. This requires a performance hurdle of 20% UBEPS growth year-on-year, rights vest at end of three-year period, retesting is permitted as long as equivalent CAGR is achieved. 100% vests when target is achieved, 50-80% vesting for 90-99% and nil under 90%. The rights are divided into three equal tranches and could be earned on meeting the UBEPS target in a particular year, or if failing, could

be retested in subsequent years over the LTI period. Also subject to continuation of employment until the beginning of the calendar year in which the performance rights are subject to vesting.

Item 6	Non-Executive Directors' Remuneration
ASA Vote	For

Summary of ASA Position

This motion seeks to increase the quantum available for the board pool by \$100,000 from \$800,00 to \$900,000. The board fees paid for 2019 was \$650,000. Given that we have a new non-executive director for election and that the total pool is reasonable, we support this motion.

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